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C O N F I D E N T I A L SECTION 01 OF 02 TEGUCIGALPA 000799

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SUBJECT: HONDURAS THE DAY AFTER ALBA: THE ECONOMIC RESPONSE

REF: A. TEGUCIGALPA 795  
    **[1](#)**. TEGUCIGALPA 789  
    **[1](#)**. C. TEGUCIGALPA 787  
    **[1](#)**. D. TEGUCIGALPA 772

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Classified By: Charge D'Affairs Simon Henshaw for Reasons 1.4 (b) and (d)

**[11.](#)** (C) Honduran citizens got a first glimpse of the ALBA agreement through a reprint in La Tribuna two days after President Zelaya signed it. In addition to its basic claim that the "Neoliberal Model" has sharpened poverty and social exclusion in the region, the agreement recognizes a need for cooperation and solidarity among Latin American people in the areas of health, education, housing, social development and infrastructure. On balance, the business community appears upset by the accession to ALBA, but not alarmed. The agreement lacks enough substance to have an appreciable effect on the economy in and of itself. The real danger to the economy would arise if President Zelaya eschews the need to revise monetary policies to get the IMF Standby Agreement back on track (reftel D) and bets that new indebtedness to Venezuela, which could reach USD 600 million before Zelaya leaves office, will save Honduras from permanently high inflation and macroeconomic downturn. End Summary.

**[12.](#)** (SBU) Through a reprint in La Tribuna, Honduran citizens got to see what ALBA could mean for their country for the first time. In addition to a preamble that declares the "Neoliberal Model" responsible for sharpened poverty and social exclusion, the agreement contains a joint declaration signed by all the ALBA presidents, including 11 poverty-reduction and social incentive measures specifically for Honduras. These include:

-- USD 30 million of capital from National Agricultural Development Bank of Venezuela (BANDES) to BANADESA, the

equivalent Honduran bank, to fund a low interest credit program for micro, small and medium agriculture producers.

-- Purchase of USD 100 million in Honduran sovereign bonds by Venezuela to fund a low-income housing program.

-- The ALBA "Grand National" Energy, Gas and Fuel Company conducts prospecting and production for Petrocaribe fuel. The GOH is responsible for developing a production and marketing plan.

-- A special seed fund of USD 1.8 million for production and purchase of basic grains. Separately, creation of a "genetic development" center for small livestock farmers in the amount of USD 200,000.

-- Technical assistance by Telesur to Honduran state television, currently transmitted on Channel 8.

-- Cuban doctors.

-- 80 scholarships to Cuba for medical, humanities and science and technology.

-- Expansion of the "Yes I Can" Cuban education program to 206 Honduran municipalities.

-- Replacement of four million incandescent bulbs with energy saving bulbs by employees of the Cuban Ministry of Basic Industry.

-- Consideration of the Honduran request for the provision of medical necessities from Cuba.

¶3. (C) Notable at Monday's rally was the complete absence of private sector and banking representatives, who have taken the negative popular reaction to the agreement as an opportunity to speak more vocally against it (reftel A). Amilcar Bulnes, President of COHEP and traditional Zelaya ally, spoke out publicly against ALBA and mid-level representatives gave interviews to the press denouncing it. Meanwhile, board members of the industrial association, ANDI, told econoff they are lobbying strongly

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against ALBA in Congress, despite the fact that ANDI President Adolfo "Fito" Facusse continues to support the agreement. Other private sector representatives individually said they went about their day as normal on Monday, expressing disgust for the "show" President Zelaya hosted, but not alarm. Several said they view ALBA as another signal that the four years under the Zelaya administration have worsened the investment climate. But they uniformly expressed optimism about the prospects for CAFTA-DR. Even the World Bank said that, despite ALBA, it plans to revive its International Financial Corporation (IFC) program in Honduras, due to a bullish market for development-related investment projects here. The banking community has adopted a "wait and see" stance, saying it will only be alarmed if ALBA triggers capital flight through a sudden rise in the purchase of dollars. Some bankers commented that Honduras is headed into a recession next year, which they say would be caused by lax monetary policies, not ALBA.

¶4. (C) Comment: Honduras-specific measures in the ALBA agreement are not likely to have a direct economic impact in Honduras. Post believes the impact of ALBA, if it passes Congress, is likely to be more political (reftel A). Although Zelaya publicly disdained what he termed as "meager" international assistance, he likely intends to continue to seek assistance from all possible sources, including the United States and the International Financial Institutions. The possibility exists, however, that he has become unwilling to listen to the advice of his capable economic team. If true, he might use ALBA as an excuse to let the IMF Standby Agreement fail by refusing to approve the presentation of substantive monetary policy revisions to the IMF board in September (reftel D). Unprogrammed borrowing from Venezuela, including Petrocaribe and ALBA, could approach USD 600 million before Zelaya leaves office. This may be enough to ward off high inflation and/or a macroeconomic downturn through the rest of Zelaya's term, but is not a long-term solution to Honduras' monetary policy weaknesses. End Comment.

HENSHAW